

**REPORT OF THE AUDIT OF THE
SIMPSON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

July 18, 2003



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
SIMPSON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

July 18, 2003

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for Simpson County Sheriff as of July 18, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$529,028 for the districts for 2002 taxes, retaining commissions of \$18,979 to operate the Sheriff's office. The Sheriff distributed taxes of \$506,296 to the districts for 2002 Taxes. Refunds of \$1,011 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Collateral Of \$177,816 And Entered Into A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

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CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Jim Henderson, Simpson County Judge/Executive

Honorable R. E. "Gene" Starks, Simpson County Sheriff

Members of the Simpson County Fiscal Court

Independent Auditor's Report

We have audited the Simpson County Sheriff's Settlement - 2002 Taxes as of July 18, 2003. This tax settlement is the responsibility of the Simpson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Simpson County Sheriff's taxes charged, credited, and paid as of July 18, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Jim Henderson, Simpson County Judge/Executive
Honorable R. E. "Gene" Starks, Simpson County Sheriff
Members of the Simpson County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Collateral Of \$177,816 And Entered Into A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 13, 2003

SIMPSON COUNTY
R. E. "GENE" STARKS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

July 18, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 111,187	\$ 59,018	\$ 317,089	\$ 111,187
Tangible Personal Property	3,265	1,797	9,385	8,480
Intangible Personal Property				9,159
Franchise Corporation Taxes	4,085	2,223	11,674	
Penalties	6,163	3,284	17,579	6,877
Gross Chargeable to Sheriff	<u>\$ 124,700</u>	<u>\$ 66,322</u>	<u>\$ 355,727</u>	<u>\$ 135,703</u>
<u>Credits</u>				
Exonerations	\$ 162	\$ 88	\$ 465	\$ 443
Discounts				2
Delinquents:				
Real Estate	27,291	14,415	77,831	27,291
Tangible Personal Property	850	468	2,404	1,188
Intangible Personal Property				526
Total Credits	<u>\$ 28,303</u>	<u>\$ 14,971</u>	<u>\$ 80,700</u>	<u>\$ 29,450</u>
Taxes Collected	\$ 96,397	\$ 51,351	\$ 275,027	\$ 106,253
Less: Commissions *	<u>4,097</u>	<u>2,115</u>	<u>8,251</u>	<u>4,516</u>
Taxes Due	\$ 92,300	\$ 49,236	\$ 266,776	\$ 101,737
Taxes Paid	91,613	48,879	264,793	101,011
Refunds (Current and Prior Year)	<u>888</u>	<u>463</u>	<u>2,524</u>	<u>889</u>
Refunds Due Sheriff		**		
as of Completion of Fieldwork	<u>\$ (201)</u>	<u>\$ (106)</u>	<u>\$ (541)</u>	<u>\$ (163)</u>

* and ** See Page 4.

The accompanying notes are an integral part of this financial statement.

SIMPSON COUNTY
R. E. "GENE" STARKS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
July 18, 2003
(Continued)

* Commissions:

4.25% on	\$ 226,865
4% on	\$ 27,134
3% on	\$ 275,028

** Special Taxing Districts:

Library District	\$ (62)
Ambulance District	<u>(44)</u>
Refunds Due Sheriff	<u>\$ (106)</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS

July 18, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of February 11, 2003, FDIC insurance did not equal or exceed the amount on deposit, leaving \$177,816 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

SIMPSON COUNTY
 NOTES TO THE FINANCIAL STATEMENT
 July 18, 2003
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of February 11, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Uncollateralized and uninsured	<u>177,816</u>
Total	<u>\$ 277,816</u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 16, 2003 through July 18, 2003.

Note 4. Interest Income

The Simpson County Sheriff earned \$174 as interest income on 2002 taxes. As of October 13, 2003, the Sheriff owes \$16 in interest to the school district and \$84 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Simpson County Sheriff collected \$25,264 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Simpson County Sheriff collected \$1,711 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of October 13, 2003, the Sheriff owes \$441 in advertising fees to his fee account.

COMMENTS AND RECOMMENDATIONS

SIMPSON COUNTY
R. E. "GENE" STARKS, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of July 18, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Collateral Of \$177,816 And Entered Into A Written Agreement To Protect Deposits

On February 11, 2003, \$177,816 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response:

Financial Institution has been notified of this problem. Currently the issue is being corrected.

INTERNAL CONTROL:

Lacks Adequate Segregation Of Duties

Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. The Sheriff has primarily assigned one deputy to perform all of the accounting functions of the office and has instituted compensating controls. However, we recommend that the Sheriff periodically recount the tax monies collected and make the bank deposit and compare the bank reconciliation to the balance in the checkbook.

Sheriff's Response:

None.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Members of the Simpson County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Simpson County Sheriff's Settlement - 2002 Taxes as of July 18, 2003, and have issued our report thereon dated October 13, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Simpson County Sheriff's Settlement - 2002 Taxes as of July 18, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Collateral Of \$177,816 And Entered Into A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Simpson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 13, 2003